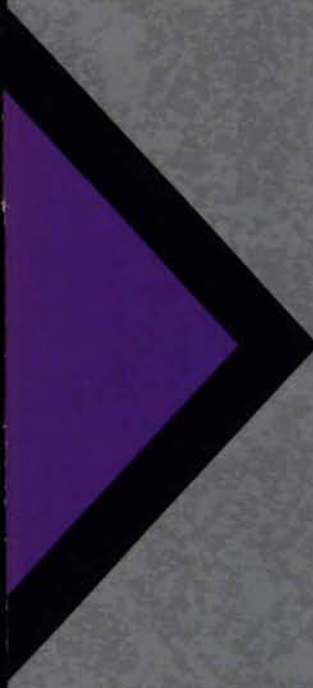



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# Textiles

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**Canada**



1990-1991

## TEXTILES

## FOREWORD

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*In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.*

*Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990-1991 series represents an updating and revision of the series published in 1988-1989. The Government will continue to update the series on a regular basis.*

Michael H. Wilson  
Minister of Industry, Science and Technology  
and Minister for International Trade

## Structure and Performance

### Structure

The Canadian textile industry is composed of two major groups: producers of primary textiles, including man-made fibres and filaments, yarns, and broadwoven as well as broad-knitted fabrics; and producers of textile products (excluding clothing) such as carpets and rugs, canvas goods, narrow fabrics, household products of textile materials, non-woven fabrics, hygienic textile articles, and miscellaneous textile products.<sup>1</sup> Dyeing, printing and finishing processes associated with yarn and broad fabric production are part of the primary textiles group, while commission or contract textile dyers, printers and finishers are part of the textile products

group. Other products of the textile industry are coated fabrics, tire cord fabrics and linoleum floor coverings.<sup>2</sup>

Textiles are products derived from the processing of man-made or natural fibres to form yarns, fabrics and a wide range of end products. Most types of man-made fibres and filaments, derived from petrochemicals or modified wood pulp, are produced in Canada. Natural fibres — cotton, silk, flax and to a large extent wool — are not domestically available and must be imported. The products of the textile sector are used by over 150 industries of the Canadian economy, including the apparel, home furnishings, automotive, health, engineering and construction, mining, fishing and forestry industries.


In 1989, the Canadian textile industry consisted of some 1 105 establishments, providing employment

<sup>1</sup>Statistics Canada, in its *Standard Industrial Classification, 1980*, designates the sectors producing these goods as major group 18, primary textile industries, and major group 19, textile products industries.

<sup>2</sup>These products are designated by Statistics Canada as SIC 3993, floor tile, linoleum and coated fabric industry.



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to an estimated 62 330 workers, with shipments worth \$6.9 billion. Primary textiles accounted for 216 establishments, 45 percent of total industry shipments and 43 percent of employment. Textile products (excluding carpets and rugs) accounted for 848 establishments, 40 percent of shipments and 48 percent of employment. Carpets and rugs accounted for 41 establishments, 15 percent of shipments and 9 percent of employment. The textile industry accounted for 2.7 percent of the gross domestic product for all manufacturing in 1989.

The Canadian textile industry supplies three major downstream markets: an estimated 35 percent of total production (based on cumulative fibre weight) is used in apparel manufacturing; 45 percent is used in the production of household products such as upholstery, carpets, towels, bedding and curtains; and 20 percent is used in industrial applications and includes products such as netting, tire cord fabrics, paper-makers' felts, surgical products, protective wear, reinforcement components of engineered composite materials and geotextiles for environmental conservation purposes.

Some subsectors of the textile industry are more concentrated than others. The aggregate value of shipments of the top 7 percent (73 establishments) of all textile firms, each with more than 200 workers, accounts for 50 percent of all textile shipments. In the primary textiles group, virtually all of the Canadian production of man-made fibres and filaments is carried out by seven corporations (six of which are foreign-owned); the value of the aggregate shipments of these seven corporations represents approximately 25 percent of the group's total. The value of yarn spinning, fabric formation and finishing shipments of four other firms accounts for a further 26 percent. In the textile products group, there is a high degree of ownership concentration in the production of bed sheets, pillowcases and towels. In the carpet and rug subsector, the aggregate shipment value of four companies represents nearly 55 percent of all Canadian carpet shipments.

The Canadian textile industry is highly modernized and capital-intensive. Establishments in primary textiles are relatively large, with greater economies of scale than those in textile products. There is a significant degree of vertical integration in the primary textiles group, with some major producers spinning their own yarn from purchased fibres and then forming, dyeing and finishing the fabrics. Other producers specialize in only one or two manufacturing processes such as fabric formation, purchasing their yarn requirements from domestic and foreign sources.

The degree of capital intensiveness and vertical integration varies widely within the highly diversified textile products group. The carpet and rug subsector has a capital-intensive structure that parallels the one found in the primary textiles

group, with most major producers vertically integrated to include yarn, carpet construction and dyeing as well as finishing processes. While products such as non-woven fabrics, hygienic textile articles and tire cord fabrics require very sophisticated machinery, others such as drapery and curtains use labour-intensive cut-and-sew operations that are more akin to apparel manufacturing but are less complex. Dyers and finishers either provide their services on a commission basis to other textile producers or purchase their own fabrics for further processing. In the latter case, they tend to rely heavily on imported greige (unfinished) fabrics, as most Canadian fabric manufacturers, with whom they compete directly, are integrated to produce largely finished fabrics.

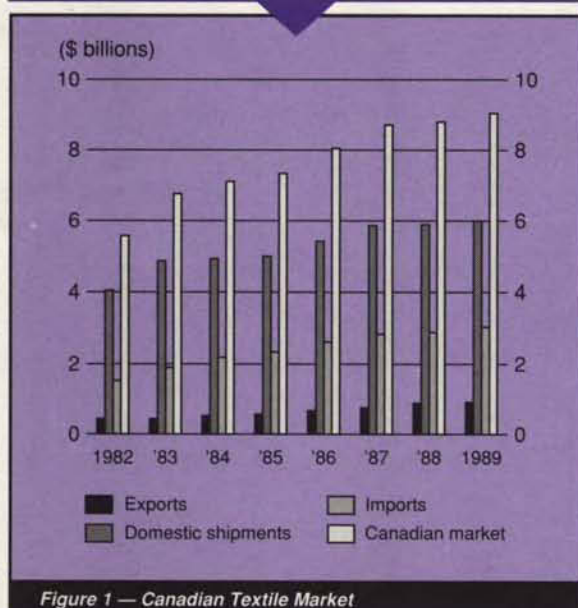
Historically, the Canadian textile industry has attracted a significant level of foreign investment in the primary textiles group, whereas foreign investment in the textile products group has been more limited. In the production of man-made fibres, filaments and fabrics, foreign-controlled firms account for about 60 percent of all primary textile shipments. In the carpet and rug subsector, foreign-controlled companies account for approximately 30 percent of all carpet shipments. Conversely, at least five major Canadian-owned firms control foreign manufacturing facilities whose aggregate shipments of foreign production represent about 18 percent of the value of all textile shipments by domestic producers in Canada.

Most textile production occurs in small urban communities with abundant water resources and a stable labour supply. According to industry data for 1986, the last year for which complete data are available, some 39 percent of textile establishments were located in Quebec, 39 percent were in Ontario and the remaining 22 percent were distributed among the other provinces. Accurate regional data for the industry are difficult to compile because many statistics are confidential. However, in 1986, Quebec accounted for 49 percent of industry employment and 51 percent of the value of all textile shipments, and Ontario contributed 43 percent of both, while the other provinces shared in 8 percent of employment and 6 percent of shipments.

## Performance

In 1989, domestic textile manufacturers supplied about 66 percent of the Canadian textile market, down from an average of 70 percent throughout the early and mid-1980s; imports constituted the remaining 34 percent (Figure 1). This loss in domestic market share is attributed in part to the increased penetration of imports from low-wage countries whose goods have a significant price advantage in the Canadian market. The erosion of domestic market share is also attributable to the elimination of certain products



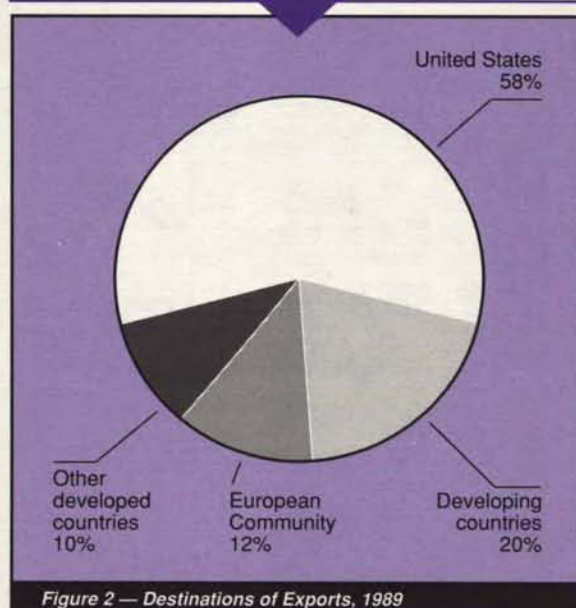


from domestic production following the rationalization efforts of some producers.

Domestic producers currently supply about 59 percent of the Canadian market for primary textiles in value terms. Domestic knitters, however, accounting for about 8 percent of all primary textiles shipments, supplied 76 percent of the Canadian market for knitted fabrics in 1989.

In the textile products group (excluding carpets and rugs), domestic producers accounted for 69 percent of the Canadian market in 1989. The subsectors within this group face varying levels of competition from imports. Some producers in this group serve local markets where import competition is not severe (fashion home furnishings, for example). Others produce textile goods such as bed sheets, pillowcases and towels that lend themselves to mass production worldwide and consequently face much stronger import pressures, particularly from low-wage sources. On the other hand, domestic producers of certain specialized textiles, such as those used in hygienic products and technical applications, have the opportunity to reduce their dependency on the relatively small Canadian market by tapping sizable international market niches for their products.

As for carpets and rugs, domestic producers accounted for 78 percent of the value of the Canadian carpet market in 1989, down from 89 percent in 1988. Despite having enjoyed record sales due to strong economic growth and a booming house construction market between 1985 and 1989, the

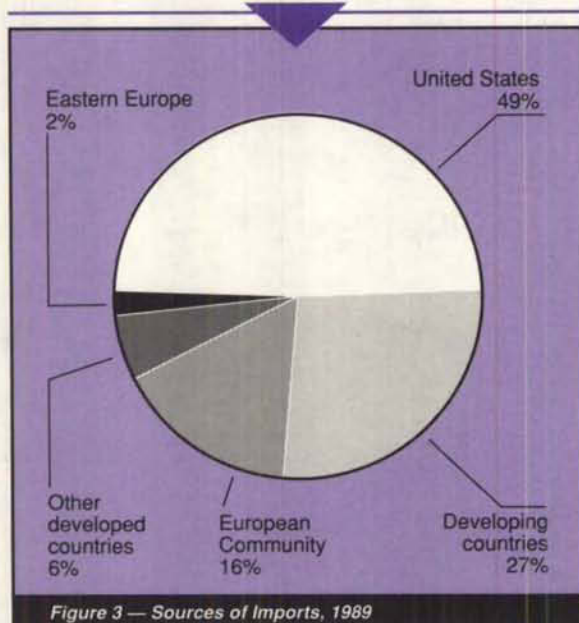


carpet industry, well furnished with state-of-the-art equipment, continued to be plagued by excess capacity and less than optimum production efficiencies. The loss of domestic market share is linked to stronger competition from U.S. carpet producers who are more actively exploring new export opportunities in the Canadian market.

The export share of Canadian shipments rose in value from 9.6 percent in 1982 to 13.2 percent in 1989. This growth is expected to continue over the next few years as Canadian producers improve their competitiveness in product price, quality and service on a global basis. The leading areas are man-made fibres, filament yarns, carpets and coated fabrics. In 1989, Canadian textile exports, valued at \$914 million, were destined 58 percent to the United States, 12 percent to the European Community (EC), 14 percent to Asia and 16 percent to other foreign markets. (Figure 2 shows the destinations in terms of developing and developed countries.)

The Canada-U.S. Free Trade Agreement (FTA) has motivated Canadian textile firms to seek new export opportunities in the more accessible and much larger U.S. market. As a consequence, exports to the United States as a share of total export value rose to 58 percent in 1989 from 40 percent in 1982. For example, carpet and rug exports to the United States composed 61 percent of all carpet exports in 1989, up from 31 percent in 1982. This gain has partly compensated for declining carpet sales in other export markets, particularly





Australia, where Canada lost its tariff preference in 1982. Carpet exports represented 10 percent of all Canadian textile exports in 1989. Overall, prohibitive tariff and non-tariff factors in some foreign markets continue to hamper the exporting efforts of Canadian textile producers.

Over 70 percent of the total value of textile imports into Canada originates in other developed countries, the United States being the leading supplier (Figure 3). The remainder originates from low-wage countries. Among those, the newly industrialized economies of the Republic of Korea, Hong Kong and Taiwan are the leading suppliers.

To maintain their viability in an increasingly competitive domestic and international textile market, many Canadian producers have adopted aggressive strategies aimed at achieving productivity gains through modernization by incorporating leading technologies at all levels of textile production. Greater profits generated by strong sales performance throughout the mid-1980s enabled many textile producers to increase their capital investments in new machinery and equipment. In some cases, new equity issues also helped finance investments. Between 1982 and 1989, capital expenditures rose by 10 percent per year on average, reaching \$309 million in 1989 alone, with total new investment by the industry exceeding \$1.9 billion over the period. Greater automation and computerization of many manufacturing and control functions contributed to productivity gains of some 4.3 percent annually (based on gross domestic product per person-hour worked).

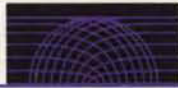


As a consequence of this shift in the capital-labour ratio for textiles, employment has remained static, despite steady growth in other areas of the industry (Figure 4). Although employment increased by more than 3 600 workers between 1982 and 1983, any fluctuations since have been minor. Meanwhile, the increase in total shipments in constant 1981 dollars was 2.6 percent annually.

Capacity utilization in 1989 was approximately 94 and 83 percent for primary textiles and textile products, respectively, compared with averages of 93 and 91 percent recorded in the previous three-year period. While the capacity utilization level for primary textiles has not shifted significantly, the pronounced drop for textile products is due in part to an erosion of domestic market share resulting from a deeper penetration of the Canadian market by imports of towels, bed sheets, pillowcases and carpets.

Throughout the past decade, the after-tax profit on capital employed in the textile industry either approximated or surpassed the all-manufacturing average. In 1987 (the latest year for which data are available), the after-tax profit on capital reached 10.9 percent, compared with 8.0 percent for all manufacturing; the after-tax profit on total income was 4.7 percent for all textiles, compared with 4.4 percent for all manufacturing; and the long-term debt-to-equity ratio reached 16.2 percent for all textiles, compared with 23.3 percent for all manufacturing. A 1.7 ratio of current assets to current liabilities in the same year indicates that textile companies were generally quite liquid.





## Strengths and Weaknesses

### Structural Factors

Continued investment by the industry in state-of-the-art machinery and equipment, the development of increasingly more flexible manufacturing plants that can respond readily and economically to changing consumer demands and, in some subsectors, a rationalized industry structure and increased plant economies of scale comparable with those of U.S. producers are the main strengths fortifying the Canadian textile industry's ability to compete with its counterparts in both industrialized and developing countries.

Where weaknesses do exist, they can be found in factors such as additional costs due to the climate and geography of the country and the small size of the Canadian market as well as less than full exploitation of economies of scale owing to overdiversification of product styles. Additional weaknesses include an overdependence on the Canadian apparel industry, fragmentation in certain subsectors and a slow rate of technological advance in others.

The industry restructuring that has occurred in several industrialized countries over the past decade has been increasingly market-driven and aimed at productivity improvements and greater flexibility in production. While some countries, particularly the United States, have a few very large establishments, the current average plant sizes in Canada are generally similar to those in other industrialized countries. Yarn and fabric producers, for example, are equipped with the same basic modern equipment as their counterparts in other industrialized countries, but have not been able to develop the same economies of scale because of the limitations of a small domestic market and a lack of strong export performance.

In Canada, the strong economic growth during the mid-1980s fortified the financial position of many textile producers, enabling them to boost their investments in modernization and to keep on the leading edge of technological advances. Manufacturers of man-made fibres and filaments, largely North American multinational enterprises, have been successful in achieving significant improvement in economies of scale through rationalization and product specialization. However, in carrying out this task, the range of possibilities open to these manufacturers was limited by the worldwide excess capacity in some product lines. One of the costs of achieving these higher economies of scale was the loss of domestic production of such lines as acrylic fibre as well as triacetate and certain polyester filament yarns.

The rationalization also undertaken by some woven fabric manufacturers allowed them to lengthen production runs and lower production costs in certain lines, thereby

making those products more cost-competitive with imports. In some instances, the level of viable minimum orders rose beyond the practical needs of many Canadian apparel manufacturers, some of whom then turned increasingly to foreign sources for small orders of fabrics that competed directly with domestically produced fabrics. Canadian fabric producers, specialized dyers, finishers and converters also started importing greige woven apparel fabrics that could no longer be made in small orders as economically in Canada.

This internal restructuring of primary textile producers, which also occurred in the textile products group to a lesser extent, created internationally rationalized and highly concentrated production units and established leadership positions for some companies in selected products. It also enabled them to strengthen their strategic planning, market research and customer services at domestic and international levels. This high degree of specialization has significantly strengthened the abilities of these companies to meet strong and growing import competition. Meanwhile, manufacturers who continued to rely heavily on demand from the domestic apparel industry were gradually adopting technologies that facilitated more economical production of a greater diversity of products in smaller quantities and quick response to customers' needs.

For knit fabrics, the low labour content and the versatility of knitting technology, which can accommodate the economic production of a wide variety of fabric styles in small lots, strengthens this subsector's ability to serve the small Canadian market, despite growing competition exerted directly by knit fabric imports from the United States and indirectly by knit apparel imports from low-wage countries. It is a highly fragmented subsector, however, and few knitters are vertically integrated to include in-house fabric dyeing and finishing. Although most of these producers remain dependent on outside services, few have nurtured strong linkages with independent processors to enhance product development and client service. Furthermore, most producers remain locked into their traditional domestic market shares, largely shying away from export opportunities, because they lack exporting knowledge or sufficient volume production to serve a larger market.

In carpet and rug production, the capacity of the equipment (tufting) required to produce a broad range of carpet styles exceeds the requirement of the domestic market. This overcapacity, although negative within the confines of the small Canadian market, would facilitate large-volume production in an expanded market.

Technologies used in the production of home furnishing textiles (excluding mass-produced products such as towels and bedsheets) have evolved slowly and are labour-intensive.





There has been less need for larger-scale plants in Canada, partly because these products are custom-made or cater to specialized, narrow niches in a small national market and even smaller local markets.

Some Canadian firms have acquired production units outside Canada while investment in the Canadian textile industry has remained a viable option for foreign investors. While ownership in itself has not severely affected the structure of the textile industry, manufacturers with branch plants dispersed in Canada and the United States have in some instances consolidated their production as one means of improving their production efficiencies and international competitiveness.

Two recent developments may serve to strengthen the supplier/buyer relationship and to provide new competitive advantages through textile/apparel co-operative arrangements. To improve their competitiveness against apparel from low-wage sources, Canadian apparel manufacturers are placing more emphasis on quick response to fill retailers' orders, based on their proximity to their customer base. Apparel producers are therefore seeking ready access to a wide variety of fabrics in smaller quantities and at reasonable prices. New technologies and micro-electronics applications are emerging to facilitate greater flexibility in textile processes and more economical domestic production of a larger assortment of fabrics in smaller lots. Thus Canadian textile producers, through co-operative arrangements, can share both the challenges and the benefits of the apparel industry's market-oriented strategies.

### Trade-Related Factors

The elements of international trade policy that relate to textiles include import quotas, tariffs, and rules and disciplines under the General Agreement on Tariffs and Trade (GATT) to cover issues such as dumping, countervailing and safeguard measures. World trade in textiles and clothing is governed by the Multifibre Arrangement (MFA), an international arrangement within the framework of GATT, but with some departure from GATT principles.

To ensure that textile trade between developed and low-wage countries proceeds in an orderly manner, the MFA permits the negotiation of bilateral arrangements to restrain imports in cases of serious injury. The proportion of total Canadian textile imports governed by bilateral arrangements is currently 10 percent (by value), although this proportion rises to an estimated 25 percent when referring to textile imports for apparel manufacture. The appendix on page 17 shows which countries have various types of source restraint agreements with Canada. The bilateral arrangements also govern 75 percent (by value) of apparel imports into Canada, which is important to the Canadian textile industry because

domestic apparel manufacturers constitute a major market for Canadian-made fabrics. While the MFA provides a means of addressing import trade issues involving participating countries, newly emerging supplier countries are constantly introducing additional competitive pressures in the Canadian market.

On 31 July 1991, the MFA was extended to 31 December 1992. Its future constitutes an important part of the discussions at the Uruguay Round of multilateral trade negotiations (MTNs) under the GATT. The overall objective of the Uruguay Round is to reduce the levels of tariff and non-tariff barriers for all goods and services. This round of talks is the first to put both tariff and quota protection for textiles and clothing on the same agenda for trade liberalization. If consensus is reached, it is possible that the MFA will be phased out and that the textile and clothing sectors will be integrated into the GATT. In this event, the timing and transitional measures will be crucial to the Canadian textile industry.

Canada maintains relatively higher tariffs on textiles from countries having Most Favoured Nation (MFN) status with Canada than most developed countries (see accompanying table). U.S. and EC tariffs are generally lower than Canadian tariffs, but not in all cases; the U.S. tariff for wool fabrics, for example, is 40 percent while the equivalent Canadian rate is 25 percent. Such rates have impeded Canadian exports of these products to the United States, but both are due to drop to zero by 1998 under the FTA.

**Average MFN Tariffs for Textiles, 1988**

(percent)

	Canada <sup>a</sup>	United States <sup>a</sup>	European Community <sup>b</sup>	Japan <sup>b</sup>
Carpets	20.0	7.6	14.0	9.6
Fabrics	19.3	12.9	10.6	8.1
Fibres	2.5	4.6	1.3	0.5
Yarns	12.5	9.5	7.3	5.9

<sup>a</sup>f.o.b. (free on board) basis.

<sup>b</sup>c.i.f. (cost, insurance and freight) basis.

Sources: Canadian International Trade Tribunal and ISTC estimates.

Reflecting its more selective production base, Canada to a limited extent applies the General Preferential Tariff (GPT) rates within the framework of the General System of Preferences, which confers preferential tariff treatment to certain developing countries. Canada applies the GPT rates





to a number of textile and clothing items, most of which are not made domestically in the precise specifications required. Other major developed countries, however, exclude most textiles and clothing from the GPT. Introduced in 1974 as a temporary part of the Canadian tariff structure for a 10-year period, the GPT has since been extended.

Under the FTA, which came into effect on 1 January 1989, all tariffs on eligible Canadian and U.S. textiles and apparel traded between the two countries were either eliminated immediately or scheduled to be phased out in five or 10 equal, annual stages, depending on the product, the majority being extended over 10 stages. The FTA allows interested parties with manufacturing interests to petition for accelerated tariff elimination for specific items. Following the first public call for proposals in 1989, bilateral consultations involving government and industry advisory groups were conducted for those requests enjoying broad industry support in both countries. An agreed package, announced in November 1989 for implementation on 1 April 1990, allowed for immediate tariff elimination on highly specialized fibres, filaments and yarns not produced in Canada. One decision with important implications involved an FTA anomaly that had called for tariff elimination in five stages (rather than 10) on upholstered furniture but retained a 10-stage tariff phase-out schedule for upholstery fabrics. Canadian furniture manufacturers feared that they would be at a disadvantage relative to their main U.S. competitors because of higher Canadian tariffs on the imported U.S. fabrics that they use in their furniture. Now they have approval for a five-stage schedule of tariff elimination on most woven upholstery fabrics.

The rules of origin under the FTA for textiles and clothing require a certain amount of Canadian and/or U.S. content (including both local purchasing and local production) in a product if it is to qualify for FTA tariff rates. If these content requirements are not met, regular MFN rates of duty apply. While there is no reference to a minimum value-added percentage, textiles and clothing must undergo specific production processes in Canada and/or the United States to qualify for FTA rates of duty. These are defined in the rules by reference to changes in tariff classification. For example, most woven or knitted fabrics have to be made in Canada or the United States from yarns produced in Canada or the United States to qualify. As a transitional adjustment, however, the FTA allows for a temporary exception to these rules, which is scheduled to expire at the end of 1992, that allows a limited volume of non-wool fabrics as well as made-in-Canada textile articles produced from yarns imported from third countries to qualify for FTA rates of duty when exported to the United States. The annual allowed volume, known as the tariff rate quota, is 25 million square metres. No reciprocal

exemption has been negotiated for products of the U.S. textile industry exported to Canada.

Current customs practice enables Canadian and U.S. textile manufacturers using imported input materials to claim a refund of any duties paid on these materials if the finished goods are subsequently exported. This practice is known as "duty drawback." Under the FTA, duty drawback will continue to be allowed until 31 December 1993 whether or not the exported finished goods qualify for preferential tariff access. Beyond 1993, duty drawback will be available only on finished goods exported to countries other than the United States. However, duty drawback will continue to be allowed for materials imported from the United States and used in goods produced in Canada that are then exported to the United States for the 10-stage FTA tariff phase-out period, during which time duties are still payable but at a reducing rate. The same condition applies in the United States.

The FTA rules of origin and the duty drawback provisions are both expected to encourage North American companies to buy North American textile materials and to ensure that both Canadian and U.S. textile producers benefit from the FTA.

On 22 March 1988, the federal government announced a three-part program of tariff relief measures designed largely to strengthen the competitive position of the Canadian apparel industry. The first part was a tariff reduction or elimination on imports of 13 specialty fabrics and yarns. The second part was the introduction of duty remission programs covering denim fabrics, woven outerwear fabrics, finished outerwear, and girls' and ladies' blouses and shirts, in addition to the extension and modification of an existing tailored-collar shirt duty remission program.

The third part was a plan to reduce textile tariffs to levels comparable with those of other industrialized countries. This plan has been examined by the Canadian International Trade Tribunal (CITT), which conducted a public inquiry involving some 500 firms and industry associations. Its report, released in March 1990, advised the federal government on a level and pace of reductions that would maximize the economic gains to Canada without causing undue hardship to domestic suppliers of textiles. The CITT recommended a simpler rate structure and a gradual drop in textile tariffs over a period of up to nine years, commencing in 1991 and averaging 26 percent overall, that would leave many products with slightly more tariff protection than their U.S. counterparts and significantly more than those in the EC or Japan. No tariff reductions were recommended for carpets, bed and bathroom linens, canvas products and some cotton and wool fabrics. Sensitive to the implications of the changes occurring at the international level, the federal government stated that a response to the CITT report would be made at a later date in the broader context of





overall textile and clothing trade policy and integrated with the decisions resulting from the Uruguay Round of the MTNs.

The objective of the third part of the federal program is to ensure that Canadian companies using substantial amounts of imported textile materials can compete on an even footing with their foreign competitors, particularly those from industrialized countries. Pending the government's response, Canadian textile producers are being challenged by the CITT recommendations to improve the competitiveness of the products that they supply to downstream users of textiles in the domestic market.

Outside the context of the CITT report, the federal government is studying requests for the elimination of tariffs on more than 100 textile products that textile users claim are not made in Canada. In addition, the federal government has expressed its intent to ask the CITT to study the costs and benefits of a tariff relief program for outward processing (partial external manufacturing) and its possible effect on existing employment. In both studies, it is expected that the potential impact on textile producers in Canada will be a major consideration.

Preferential procurement practices in Canada and the United States act as non-tariff barriers. Eligible contracts over C\$238 000 are currently open for tender to countries that are signatories to the GATT Agreement on Government Procurement. The threshold for tenders between Canada and the United States, however, was lowered to C\$33 000 under the FTA, all other provisions of the GATT agreement remaining the same. However, access to U.S. defence procurement continues to be prohibited to Canadians under U.S. legislation. As a result of the FTA, a Procurement Review Board empowered to receive complaints, conduct investigations and resolve compliance problems came into existence in Canada on 1 January 1989, paralleling a similar organization in the United States.

### **Technological Factors**

Within the past 15 years, the textile industry has become increasingly capital-intensive. Technological improvements carried out by machinery manufacturers worldwide are available to all users as soon as they become commercially viable. Canadian textile producers are quick to adopt available new technologies and are increasingly shedding their traditional reluctance to engage heavily in applied product/process research and development (R&D).

Major breakthroughs in textile technology occurred approximately two decades ago with the introduction of open-end spinning and shuttleless looms. A decade later, substantial changes were made in knitting machinery. In the 1980s, technological advances focused on increased speeds and more efficient use of existing technology through

computerization. Recent developments are centred more on versatility and product quality, with the incorporation of micro-electronics into manufacturing and distribution functions being a key factor. The integration of computer-aided design and computer-aided manufacturing (CAD/CAM) systems and computerized management information systems (MIS) with product development, production control and quality monitoring is enabling manufacturers to reduce lead times, provide shorter production runs more economically, improve quality and ultimately facilitate new quick response strategies.

In Canada, the primary textiles group as well as the carpet and rug subsector are equipped with up-to-date technology and are as modern as their counterparts in developed and newly industrialized countries. In contrast, there has not been the same pace of technological advancement worldwide in the miscellaneous textiles subsector of the textile products group, a large part of which has remained relatively labour-intensive.

There have been impressive advances, however, in the production of "technical" or "engineered" textiles for industrial applications. Some Canadian textile producers have discovered new avenues of growth through their creative applications of textiles in non-traditional areas such as concrete reinforcement, ground stabilization and composite materials where market requirements are more exacting in terms of the quality and rigidity of specifications. Globally, the displacement of conventional materials by textile components in industrial product development is presenting new challenges to the textile industry in this rapidly growing market.

### **Other Factors**

Technological change, shifting product demands and disruptions due to ongoing restructuring and rationalization have created a difficult climate, yet one full of new and rewarding career opportunities for the work force of the textile industry. As textile manufacturing becomes more sophisticated and technologically based, employees are being challenged to upgrade their knowledge and skills and to participate more fully in the development and growth of the industry. There has been no organized effort to address the need for technical training, new skills development and a higher level of education in textiles for Canadian managers and workers. As a result, Canadian producers are facing potential shortages of skilled labour and professional managers. Furthermore, the textile industry, often portrayed as a sunset industry with few advancement opportunities, is experiencing difficulty in attracting people, particularly students entering post-secondary educational institutions, to textile-oriented careers.

These problems are occurring at a time when strategic competitive advantages can be gained through sound human



resource development. Yet, while three universities do offer textile programs, graduates seldom enter the production end of manufacturing. The closure of the full-time technical textile program at Mohawk College in Hamilton, Ontario, in 1989 left only one technical college in Canada, the CEGEP (*Collège d'enseignement général et professionnel*) at Saint-Hyacinthe, Quebec. Consequently, technical training continues to be done mainly on the job.

In the face of a limited educational base, the Textile Technology Centre (TTC), in association with the CEGEP of Saint-Hyacinthe, opened in 1987, with the long-term objective of becoming an important Canadian centre for textile training, testing and R&D in Canada. Furthermore, in response to strong industry demand following the demise of its full-time program, Mohawk College resumed part-time studies in the fall of 1990 with a full complement of students drawn from the textile industry. The TTC and Mohawk College as well as other interested groups are expected to play a pivotal role in the development of an academic and scientific culture conducive to the advancement of textile production and technology in Canada.

On a broader scale, industry, labour and government have been drawn together to address the inadequacy of textile training in Canada today. In March 1990, a national Industrial Adjustment Agreement was signed by the Minister of Employment and Immigration Canada (EIC) and the Canadian Textile Labour-Management Committee of the Canadian Textiles Institute. This initiative, driven by the textile industry, evolved from the recommendations of a human resources study prepared by EIC in 1988, which assessed the impact of a changing international competitive environment on the textile industry's future employment and skills requirements. Consultative committees have been formed under the Industrial Adjustment Service (IAS) of EIC to identify the industry's needs regarding education, employee development and training, communication, and industry image enhancement as well as to develop a practical remedial action plan.

The textile industry, because it is a substantial user of chemicals, largely in dyestuffs, will need to address some significant environmental protection issues. Although Canadian textile manufacturers have a good public record of abiding by local and national requirements for environmental control, they are currently facing more stringent standards proposed under the *Canadian Environmental Protection Act* and its regulations governing chemical substances. Furthermore, they are also facing possible fee increases for the certification of "trade secret" products with the Hazardous Materials Information Review Commission. The industry is concerned that the increased costs of meeting these new requirements may adversely

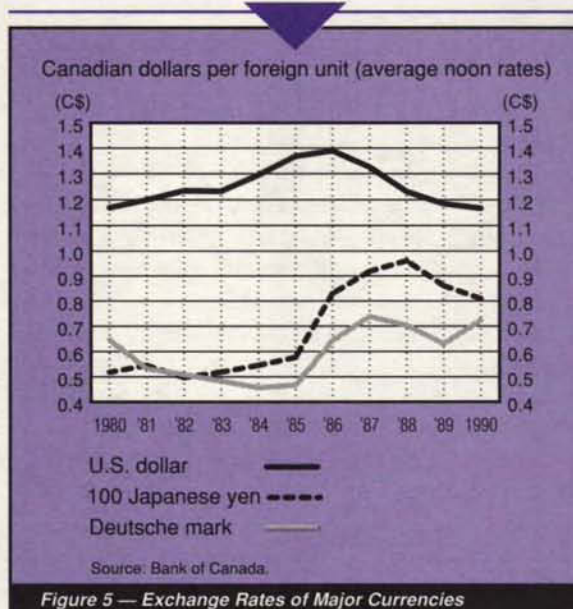


Figure 5 — Exchange Rates of Major Currencies

affect the competitiveness of its products against those of foreign competitors who are not subject to similar restrictions. While these new, stricter standards may not offer an immediate competitive cost advantage, Canadian textile producers, by exceeding the achievements of their competitors now, may be better prepared and equipped to access markets where environmental preservation is or will fast become a priority.

The industry views the exchange rate as a critical factor in international competitiveness. The Canadian dollar during the past year has continued to gain in value against the Japanese yen and, most importantly, the U.S. dollar (Figure 5). The industry has expressed concern about this relatively higher value.

On the other hand, it is widely recognized that a significantly lower exchange rate weakens the international purchasing power of Canadians and can be inflationary. The resulting higher domestic costs and prices in turn can erode, over time, the short-term competitive gains of such a lower-valued dollar.

The 7 percent goods and services tax (GST) introduced on 1 January 1991 is generally favoured, in concept, by the textile industry over the previous 13.5 percent federal sales tax (FST) for two specific reasons. First, a lower tax with more timely tax refunds on input materials will cut costs for domestic manufacturers. Second, imports will be taxed equally with products manufactured in Canada. These two factors are expected to improve the competitive position of the industry in both Canadian and foreign markets.





## Evolving Environment

The 1990s will be marked by profound changes in the global environment for the textile industry, and Canadian textile manufacturers will not be immune to the impact of these alterations. The balance of international trade in textiles will be modified by decisions arising from the current round of MTNs, the likely dismantling of the MFA in the next decade, the economic integration of most of Europe after 1992, and the massive political and economic changes occurring in Eastern Europe and the former Soviet Union. The evolving liberalization of world trade is expected to improve access to new market opportunities by the Canadian textile industry in the 1990s.

The advancing globalization of markets is expected to result in the restructuring of production at the international level. Over the past 10 years, the rate of growth of textile production in developing countries has surpassed that in developed countries. At the same time, textile imports into Canada from developing countries are gradually displacing those from developed countries, with the latter's share of total imports dropping from 80 percent in 1975 to 70 percent in 1989. China, a leading supplier among developing countries, particularly of apparel products, is expected to emerge as a major trade power in apparel and textiles. Furthermore, new impetus is being provided to trade with Asian Pacific countries as a result of the "Going Global" trade strategy outlined by Canada's Minister of International Trade in 1989. In the face of these changes, Canadian textile producers may have to consider new manufacturing arrangements such as international joint ventures in order to position themselves in the world market.

The FTA will continue to offer new opportunities to the industry at the cost of increased competition from U.S. exporters in the domestic market. The Canadian carpet industry, for example, has absorbed some external shocks. The influx of very competitively priced U.S. carpet products has challenged the domestic industry's domination of the Canadian market as its market share (in volume terms) slipped from 81 percent in 1988 to 78 percent in 1989. Carpet producers, however, attribute this loss of market share and their poor export performance in the same period as much to the impact of a strengthened Canadian dollar as to more liberalized trade with the United States.

The FTA offers the textile industry new options in diversification and specialization strategies previously denied by the restrictions of a small Canadian market. Accelerated tariff reductions overall are unlikely to significantly alter the competitive order in view of the criteria governing the bilateral consultations, which give careful consideration to the

interests of Canadian and U.S. textile producers. The rules of origin are expected to stimulate demand for yarns, fabrics and other textile materials from North American sources. Into the 1990s, FTA negotiations will continue on a range of topics, including subsidies, additional accelerated tariff reductions, government procurement policies, rules of origin access issues, border measures, markings, labelling and standards. On standards, Canada and the United States are working slowly towards a common accreditation system for testing facilities, inspection agencies and certification bodies, which should eventually lead to better access to government procurement projects in both countries.

While the economic restructuring of Eastern Europe may provide some new market opportunities, its potential role as a competitor in Western Europe is a more important consideration for Canadian textile exporters. Also, the integration into a single EC market after 1992 could imply some market expansion in certain subsectors; however, newly emerging sources of textiles, such as China and Eastern Europe, will impose formidable competition to Canadian exporters already suffering access difficulties. Because the EC is a world leader in textile innovations for industrial purposes, however, major opportunities exist for Canadian and European manufacturers to develop strategic alliances and technology transfer arrangements.

The United States, Mexico and Canada announced their intention to proceed with the negotiation of a North American free trade agreement, following careful consideration by the Canadian government of the strategic economic advantages and disadvantages involved. These talks could have important economic implications for Canadian textile producers. The Canadian Textiles Institute is supportive of Canada's full participation in the negotiations to ensure that Canada's interests and preferences resulting from the FTA would be protected.

At home, evolving internal and external influences are drawing textile producers towards new information technologies that could improve their competitiveness. Concepts such as quick response, just-in-time and quality assurance are as yet not broadly known nor employed in the Canadian textile industry, and computer-based linkages between textile suppliers, apparel producers and retailers remain underdeveloped. However, changing consumption patterns, reflecting a greater degree of buyer sensitivity to quality, value and service, are directing manufacturers towards these technologies to enhance their flexibility and responsiveness, particularly in production and distribution functions. Increasingly, textile manufacturers are participating in the changing marketplace by utilizing new technologies such as electronic data interchange and the universal product code.





## Competitiveness Assessment

The 1990s will be a decade of opportunity as well as challenge for the textile industry in Canada. Domestic and foreign producers alike will be affected by the inevitable revolution of international trading regimes, the globalization of the industry and its markets as well as the proliferation of new computer technologies that will redefine manufacturing and distribution patterns.

The Canadian textile industry has the drive and potential to develop international competitive advantages, despite the fact that today in aggregate it is not a major player on the world stage. This, however, has not deterred the industry from maintaining facilities as modern as any in the world and/or from having a strong core of manufacturing know-how that is respected worldwide.

Many Canadian producers are trying to strengthen the strategic planning capabilities of their managers. The industry is addressing its human resources problems, and the foundation for improving educational and research resources has already been established. A positive development is the productive dialogue now developing among textile producers, their suppliers and their customers. This co-operation is leading to a collective will to seek solutions to their common concerns.

While apparel manufacturers will likely continue to seek fabrics from other countries and to augment their domestic manufacturing by importing garments, many are actively seeking competitive advantages in the domestic market through emphasis on the services and fast delivery that they can provide to their customers. Textile and apparel producers working together face opportunities to develop Canadian-made products for domestic and international markets.

Both large and small firms have the potential to be competitive in a North American market. The few large firms in Canada are concentrated in the primary textiles group and tend to be internationally rationalized and focused on developing North American leadership positions in particular products. One approach being adopted by some large firms is further rationalization in order to enhance their economies of scale through volume production and to establish world leadership in price, quality and innovation on a narrower range of products. Another approach being considered by large producers is restructuring towards more flexible production units to accommodate smaller runs of innovative, high-value-added products.

Small to medium-sized enterprises (SMEs) have the potential for strategic advantages through greater production flexibilities and responsiveness, particularly in the Canadian market. On the other hand, SMEs are generally limited in

financial resources and unable to develop the high-volume production needed for larger markets. Strategic alliances and partnerships, domestic and international, both in product and market development and in research, offer the means by which SMEs can broaden their markets and opportunities.

Certain subsectors are in a higher state of readiness than others to adapt to the changing trade environment. In home furnishing textiles, where there is a greater concentration of cut-and-sew operations requiring higher labour content, contact with final consumers is more direct. The fashion orientation of products such as drapery and bedspreads provides opportunities for domestic firms to capitalize on the rising consumer demand for better-quality goods by enhancing their design, styling and custom service capabilities in both the residential and commercial fields. While this small and fragmented industry in Canada will likely continue to focus on local markets, there may be niche market opportunities to be exploited in the United States.

The U.S. carpet market and industry are both about 10 times larger than those in Canada. The much larger North American market provides an opportunity for Canadian producers seeking large-volume, low-cost competitive advantages to achieve the economies of scale now being enjoyed by their numerous and much larger competitors in the United States. Some major Canadian carpet producers remain acquisition-minded as a means of establishing dominant market positions. However, others with more limited resources are poised to pursue specialized market segments such as the commercial/contract carpet market, where product quality, performance, fast delivery and custom service are more important considerations than cost competitiveness.

The ability of knit fabric producers to retain their dominant share of the domestic market may depend on efforts to strengthen linkages with their suppliers and customers and to undertake joint activities with other knitters in such areas as export development, marketing and promotion.

The development of technical textiles for industrial applications offers high growth potential and good export prospects for the industry. Sustainable international competitive advantages can be built on the innovative applications of advanced industrial materials and manufacturing technologies. There are opportunities to produce high-quality, high-value-added products for specialized markets. While the industry is fragmented, with few national and international linkages, and producers are largely adapters of foreign technology rather than leaders in this field, a few Canadian firms, globally recognized for their technical textiles, are paving new avenues of growth. Within this rapidly expanding market, there are opportunities for technology transfer and strategic alliances to facilitate new product and process development.





Furthermore, the industry has access to research facilities and government programs supporting investment strategies that focus on the commercial exploitation of R&D achievements.

The FTA provides a foretaste of the global competitive environment that will prevail in the future, attuning textile manufacturers to the competitiveness they must address. The longer-term advantages of an expanded market and improved access to a greater variety of textile input materials from U.S. sources should provide a solid base for the growth of the Canadian textile industry. The rules of origin, while disturbing to producers who use substantial amounts of third-country materials, should inspire more interest in purchasing yarns and fabrics from North American sources. These products will become more competitively priced as the FTA tariff phase-out period progresses.

The assimilation of the FTA into the Canadian business environment has proceeded relatively smoothly, with the industry determined not only to adjust to it but also to take full advantage of opportunities that a market 10 times the size of the Canadian market offers. Some larger firms will likely undergo further rationalization, and multinational enterprises with Canadian operations will probably encourage specialization on a continental basis. Potential winners among SMEs include producers who enjoy a high degree of modernization and flexibility in their operations. While the FTA is the most influential factor stimulating competitive drive in the textile industry in Canada today, many firms have yet to more actively explore the benefits that can be reaped through successful adjustment to the North American marketplace. To do so would be prudent, in preparation for the increasing global competition that will greet the next century.

For further information concerning the subject matter contained in this profile or the ISTC sectoral initiatives listed on page 16, contact

Consumer Products Branch  
Industry, Science and Technology Canada  
Attention: Textiles  
235 Queen Street  
OTTAWA, Ontario  
K1A 0H5  
Tel.: (613) 954-2883  
Fax: (613) 954-3107





## PRINCIPAL STATISTICS<sup>a</sup>

	1982	1983	1984	1985	1986	1987	1988	1989
Establishments	1 046	1 072	1 101	1 032	1 096	1 093	1 218	1 105 <sup>b</sup>
Employment	58 892	62 576	61 831	59 585	60 918	62 480	63 327	62 330 <sup>b</sup>
Shipments (current \$ millions)	4 471	5 289	5 444	5 551	6 083	6 609	6 779	6 907 <sup>b</sup>
(constant 1981 \$ millions)	4 354	5 105	5 103	5 140	5 586	5 694	5 764	5 584
GDP <sup>c</sup> (constant 1981 \$ millions)	1 381.1	1 780.0	1 767.8	1 763.6	1 945.4	2 102.6	2 163.7	2 168.4
Investment <sup>d</sup> (\$ millions)	155.5	170.3	199.9	216.3	271.4	274.4	322.4	309.0
Profits after tax <sup>e</sup> (\$ millions)	36.2	233.1	217.8	128.0	330.9	391.6	N/A	N/A
(% of income)	0.6	3.8	3.2	1.9	4.3	4.7	N/A	N/A

<sup>a</sup>For establishments, employment and shipments, see *Primary Textile Industries*, Statistics Canada Catalogue No. 34-250, annual; *Textile Products Industries*, Statistics Canada Catalogue No. 34-251, annual; and *Other Manufacturing Industries*, Statistics Canada Catalogue No. 47-250, annual (major groups 18, primary textile industries, and 19, textile products industries; and SIC 3993, floor tile, linoleum and coated fabric industry). These data do not include SIC 3257, motor vehicle fabric accessories industry, which had shipments of \$1.2 billion in 1989. For information on this industry see *Transportation Equipment Industries*, Statistics Canada Catalogue No. 42-251, annual.

<sup>b</sup>ISTC estimates.

<sup>c</sup>See *Gross Domestic Product by Industry*, Statistics Canada Catalogue No. 15-001, monthly. Data include those for SIC 3993, floor tile, linoleum and coated fabric industry.

<sup>d</sup>See *Capital and Repair Expenditures, Manufacturing Subindustries, Intentions*, Statistics Canada Catalogue No. 61-214, annual. Figures are capital expenditures only. Data include those for SIC 188, automobile fabric accessories industry (see *Standard Industrial Classification, 1970*, Statistics Canada Catalogue No. 12-501).

<sup>e</sup>See *Corporation Financial Statistics*, Statistics Canada Catalogue No. 61-207, annual. These data exclude SIC 3993, floor tile, linoleum and coated fabric industry. N/A: not available

## TRADE STATISTICS<sup>a</sup>

	1982	1983	1984	1985	1986	1987	1988 <sup>b</sup>	1989 <sup>b</sup>
Exports (\$ millions)	429	427	520	563	668	751	885	914
Domestic shipments (\$ millions)	4 042	4 862	4 924	4 988	5 415	5 858	5 894	5 993
Imports (\$ millions)	1 525	1 902	2 192	2 348	2 628	2 847	2 898	3 044
Canadian market (\$ millions)	5 567	6 764	7 116	7 336	8 043	8 705	8 792	9 037
Exports (% of shipments)	9.6	8.1	9.6	10.1	11.0	11.4	13.1	13.2
Imports (% of Canadian market)	27.4	28.1	30.8	32.0	32.7	32.7	33.0	33.7

<sup>a</sup>See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly; and *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

<sup>b</sup>It is important to note that data for 1988 and after are based on the Harmonized Commodity Description and Coding System (HS). Prior to 1988, the shipments, exports and imports data were classified using the Industrial Commodity Classification (ICC), the Export Commodity Classification (XCC) and the Canadian International Trade Classification (CITC), respectively. Although the data are shown as a continuous historical series, users are reminded that HS and previous classifications are not fully compatible. Therefore, changes in the levels for 1988 and after reflect not only changes in shipment, export and import trends, but also changes in the classification systems. It is impossible to assess with any degree of precision the respective contribution of each of these two factors to the total reported changes in these levels.





### SOURCES OF IMPORTS<sup>a</sup> (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	57	55	51	48	44	44	47	49
European Community	15	15	18	21	21	17	16	16
Asia	20	21	22	22	25	28	26	24
Other	8	9	9	9	10	11	11	11

<sup>a</sup>See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

### DESTINATIONS OF EXPORTS<sup>a</sup> (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	40	47	54	61	63	62	59	58
European Community	16	12	10	9	11	11	12	12
Asia	6	7	12	9	9	11	13	14
Other	38	34	24	21	16	16	16	16

<sup>a</sup>See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

### REGIONAL DISTRIBUTION<sup>a</sup> (1986)

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Establishments (% of total)	3	39	39	11	8
Employment (% of total)	X	49	43	X	2
Shipments (% of total)	X	51	43	X	1

<sup>a</sup>See *Primary Textile Industries*, Statistics Canada Catalogue No. 34-250, annual; *Textile Products Industries*, Statistics Canada Catalogue No. 34-251, annual; and *Other Manufacturing Industries*, Statistics Canada Catalogue No. 47-250, annual.

X: confidential





## MAJOR FIRMS

Name	Country of ownership	Location of major plants
Celanese Canada Inc.	Germany	Drummondville, Quebec Millhaven, Ontario
Consoltex Canada Inc.	United Kingdom	Alexandria, Ontario Cowansville, Quebec Montmagny, Quebec Montreal, Quebec
Dominion Textile Inc.	Canada	Cornwall, Ontario Drummondville, Quebec Iroquois, Ontario Magog, Quebec Sherbrooke, Quebec Trois-Rivières, Quebec Valleyfield, Quebec
Du Pont Canada Inc.	United States	Kingston, Ontario Maitland, Ontario
Peerless Carpet Corporation	Canada	Acton Vale, Quebec Wickham, Quebec

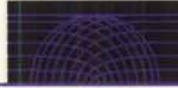
## INDUSTRY ASSOCIATIONS

Canadian Carpet Institute (CCI)  
Suite 1607, 275 Slater Street  
OTTAWA, Ontario  
K1P 5H9  
Tel.: (613) 232-7183  
Fax: (613) 232-3072

Canadian Textiles Institute (CTI)  
Suite 502, 280 Albert Street  
OTTAWA, Ontario  
K1P 5G8  
Tel.: (613) 232-7195  
Fax: (613) 232-8722

Canadian Rope and Twine Institute  
Suite 1801, One Yonge Street  
TORONTO, Ontario  
M5E 1W7  
Tel.: (416) 363-7845  
Fax: (416) 369-0515





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## SECTORAL STUDIES AND INITIATIVES

### **Communication**

ISTC's Fashion Apparel Sector Campaign (FASC) is providing a temporary forum for improved communication between the textile and apparel sectors in the form of the Textile/Apparel Linkages Committee.

### **Exports**

Export development will be a vital determinant of the industry's future. Federal government programs such as the Program for Export Market Development (PEMD), the New Exporters to Border States (NEBS) Program and the New Exporters to the U.S. South (NEXUS) Program are focused on providing the industry with incentives to acquire exporting knowledge and experience through greater participation in conferences, seminars, trade shows and missions.

### **Technology**

While the industry is generally attuned to the new micro-electronics, these technologies are not in widespread use. Available ISTC programs, such as the Technology Outreach Program (TOP) and the Advanced Manufacturing Technology Application Program (AMTAP), and organizations such as the Textile Technology Centre are oriented towards educating producers on available technologies and facilitating technology transfer arrangements.





## APPENDIX — BILATERAL RESTRAINT AGREEMENTS ON TEXTILES, 1991

Household textiles and textile products	Brazil	Bulgaria	China	Colombia	Czechoslovakia	Hong Kong	India	Macau	Malaysia	Pakistan	Poland	Republic of Korea	Romania	Singapore	South Africa	Sri Lanka	Taiwan	Thailand	Turkey	United Arab Emirates	Uruguay
Towels - terry, cotton	◆		◆	◆	◆	◆				◆	◆	◆					◆	◆			
Sheets	◆		◆			◆	◆			◆		◆	◆			◆			◆	◆	
Pillowcases	◆		◆							◆		◆	◆						◆	◆	
Tablecloths																	◆				
Work gloves			◆			◆		◆		◆		◆				◆	◆	◆			
Hosiery			◆									◆		◆			◆	◆			
Hand bags												◆						◆			

### Fabrics

Nylon										◆	◆						◆	◆			
Polyester										◆	◆						◆				
Polyester/rayon																	◆				
Worsted		◆	◆		◆		◆				◆	◆	◆		◆		◆				◆
Cotton, finished			◆			◆											◆				
Cotton, unfinished						◆											◆				
Polyester/cotton			◆			◆						◆					◆				
Denim						◆											◆				

### Yarns

Acrylic, cotton spun								◆						◆			◆				
Acrylic, worsted spun								◆				◆		◆			◆				
Nylon												◆					◆				
Polyester												◆					◆				
Polyester/cotton																	◆				
Man-made fibre, mixed																	◆				

◆ = restraint

Printed on paper containing recycled fibres.

